

Testimony of
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I appreciate the opportunity to testify on the increased presence of the People’s Republic of China in the Western Hemisphere and its implications for United States interests.

The prosperity and security of the United States is inextricably linked to growing prosperity and security around the globe, and not least with the prosperity and security of our partner nations in the Western Hemisphere.

As in Asia and Africa, China’s growing profile in the Hemisphere reflects its broader emergence as a global political and economic power. China is now the world’s sixth-largest economy, its third-largest trading nation, and a major destination for foreign-direct investment from around the globe. As economic globalization has expanded, so too have the linkages between East Asia and Latin America. In the past year, Korea has signed an FTA with Chile, and Japan an FTA with Mexico.

China has been translating its economic success — and its search for resources to fuel its economic development — into greater influence around the world, including in Latin America and the Caribbean. In a March 19 speech in Tokyo, Secretary Rice noted that the U.S. welcomes the rise of a confident, peaceful and prosperous China and that we want China as a global partner, able and willing to match its growing capabilities to its international responsibilities. From de-nuclearizing the Korean peninsula to fighting terrorism, HIV/AIDS, and SARS, the United States has found common ground with China.

This is the context in which we view China’s increasing economic, diplomatic, and military contacts with the countries of the Western Hemisphere.

China's interest in Latin America is driven by several factors:

- To secure reliable sources of raw materials for its continued economic expansion through increased trade and investment;
- To lessen its isolation in international fora;
- To showcase its emergence as a major power;
- To pursue defense and intelligence opportunities, and;
- To pursue its policy of isolating Taiwan, which is recognized by twelve Latin American governments.

U.S. interests are clear: we seek to support democracy, free markets, and economic integration in the Hemisphere.

That being said, we continue to monitor closely China's outreach to Latin America, as we monitor it elsewhere. We seek to ensure that this activity does not run counter to U.S. goals in the region and is compatible with this Hemisphere's hard-won progress towards representative democracy. We will remain actively engaged, here in our own hemisphere and around the world, in pursuit of our core interests and values. The Western Hemisphere is our home. By virtue of geography, history, culture, demographics, and economics, the United States is linked to our Hemispheric partners in ways other countries cannot match.

China's Economic Outreach to Latin America

Over the past year, the global economy grew by almost five percent — the fastest rate in two decades — and about half of this growth was generated by the U.S. and China. For its part, China's economy grew at an average real rate of about 9 percent from 1979; it grew 9.3% in 2003 and 9.5% in 2004. This rapid growth has resulted in a dramatic increase in China's demand for many raw materials and food stuffs.

China is now the world's second-largest consumer of petroleum, and has become a net importer of oil. China also imports large quantities of iron ore, copper, bauxite, timber, zinc, manganese, tin, and soybeans. In earlier years of its economic expansion, China sought critical raw materials primarily from sources in

Asia, but as the economy has continued to expand, China has increasingly looked to Latin America and Africa as sources of key commodities, most notably petroleum, copper and other minerals, and foodstuffs.

One impact has been to raise profits for commodity exporters around the world, including in Latin America, contributing in part to the region's improved economic performance in 2004. This makes China an attractive market for countries in the Hemisphere and, given China's interest in resources, an investor worth courting.

In 1999, China exported about \$5 billion worth of goods to the Latin America and the Caribbean and imported about \$3 billion worth of goods. By 2004, exports rose to \$18 billion and imports, primarily soy products and minerals, rose to \$22 billion — thus, the region now runs a trade surplus with China, according to official Chinese statistics. While exports from the Hemisphere to China are concentrated in food and raw materials, China's principal exports to the region include textiles, apparel, shoes, machinery, televisions, and plastics.

The Latin American industries that have benefited most from exports to China are concentrated in soy cultivation and extractive industries that are not labor intensive. Moreover, China's exports, especially in textiles, apparel, and shoes, compete with Latin American and Caribbean producers. Textile and apparel production have become an important niche industry in the Hemisphere, providing critical jobs and income. Major changes in these industries will have a significant economic and social impact in the region — primarily in Mexico, Central America, and the Caribbean. Since these producers utilize a substantial component of U.S. yarn and fabric, it is in our interest to see that their exports not be substituted by those from China. Implementing the Central America-Dominican Republic Free Trade Agreement is a key step in this direction.

It is also important to note that while textile and apparel production tend to be concentrated in Mexico, Central America, and the Caribbean, the main exporters of raw material to China are concentrated more in South America.

China is not only importing more raw materials from the Western Hemisphere, but it is also making significant investments in the region. The Chinese Ministry of Commerce estimates the cumulative total of Chinese investment in Latin America as of the end of 2003 was US\$4.62 billion, accounting for 14 percent of China's total cumulative realized outward investment. Preliminary Ministry figures estimate that 46 percent of China's 2004 foreign

investment was in Latin America and the Caribbean, adding another \$1.7 billion to the total. We will continue to analyze this trend and how it affects the region's economic balance.

There has been a significant increase in Chinese commitments to invest in not only extractive sectors, but infrastructure as well, as China looks to make transportation of goods more efficient and economical. Most of the investment in ports, roads, and docks are focused on countries producing the basic commodities to be exported to China and in countries on the Pacific Rim.

China has also entered into cooperative arrangements in more technologically advanced industries such as aircraft manufacturing with Brazil's Embraer, satellite launches with Brazil, and telecommunications with Venezuela. Many of these investments are still in preliminary stages and have not yet borne fruit.

Despite China's increasing investment in Latin America, it remains well behind the total U.S. investment in Latin America of more than \$300 billion, and the United States remains by far the largest market for this region.

Additionally, there may be drawbacks associated with Chinese investment in the region:

- Several Latin American economists have noted that Chinese investments often include low-interest-rate loans that require the work be done by Chinese companies.
- Others have noted that Chinese investments in Latin America may make Chinese industries even more competitive in the global market at the expense of Latin American and Caribbean economies.
- Finally, the fact has not been lost on regional leaders and economists that Chinese investments focus heavily on raw materials, rather than on manufacturing or other value-adding activities that generate jobs or boost jobs skills.

Diplomatic and Political Activity — The Contest with Taiwan and “Visit Diplomacy”

Rivalry with Taiwan also plays into China's courting of Latin American countries. A key Chinese political objective is to isolate Taiwan, and China will actively court those twelve countries in this Hemisphere that recognize Taiwan.

Worldwide, only 25 countries officially recognize Taiwan. Recently, Dominica and Grenada broke relations with Taiwan in favor of China, and Jamaica opened an embassy in Beijing. In the cases of Dominica and Grenada, Chinese promises of assistance preceded recognition, with China promising Dominica \$112 million over six years. Taiwan has sought to counter this with its own aid program in the region.

China also looks to regional organizations as a channel for economic and political engagement. In May 2004, the Organization of American States granted China permanent observer status. China also continues to pursue its long-standing application for non-regional membership in the Inter-American Development Bank. Before that can happen, however, China must make a \$200-300 million contribution to the Bank, and pre-pay its International Development Association loans. There will be no free rides for China in the IADB and we will make every effort to ensure that there is no politicization of loan considerations either.

The Chinese are also skillfully employing “visit diplomacy.” On the margins of the APEC Summit in Santiago in November 2004, President Hu Jintao visited Argentina, Brazil, Chile, and Cuba. Hu promised tens of billions of dollars for improving infrastructure — again, mainly to improve access to, and transport of, raw materials. During that visit, Brazil, Chile, and Argentina agreed to recognize China as a “market economy” for antidumping purposes, making it harder for their domestic industries to pursue antidumping charges against imports from China.

In December, Venezuelan President Hugo Chavez visited Beijing, signing agreements that would increase China’s investment in Venezuela’s oil sector and boost bilateral trade, which, as Chavez stated, could reach \$3 billion in 2005, more than double the total for 2004.

In January and February 2005, Vice President Zeng Qinghong visited Mexico, Venezuela, and Peru, and attended the opening ceremony of the first ministerial-level meeting of the China-Caribbean Economy and Trade Cooperation Forum 2005 in Kingston.

China has also deployed police to Haiti as part of a UN Security Council-authorized mission.

China is also expanding its military-to-military contacts in the Hemisphere. In previous testimony before Congress, General Bantz Craddock of the United

States Southern Command noted that national-level defense officials from China made 20 visits to Latin America and the Caribbean, while defense ministers and chiefs of defense from nine regional countries have visited China. In addition, we have noted an increase in educational exchanges between China and several Latin American and Caribbean countries. While these contacts are minimal, we are watching them closely, and seek to ensure that they do not undermine the commitment of Latin American militaries to democracy and civilian control.

We note that the political dimension of China's contacts with some governments in the Hemisphere appears to be more important than China's contacts with other governments. In these cases, the nature of the contacts will become clearer with time. We will be attentive to any indication that economic collaboration will feed political relationships that could run counter to our key objectives for the region.

China's contacts with Cuba are particularly problematic in this regard. Chinese economic influence in Cuba grew through the 1990s. After a November 2004 visit by President Hu to Cuba, the PRC sharply accelerated its economic cooperation with Cuba, including in the strategic nickel sector. Castro predicted Chinese investment would double Cuban nickel output. The Chinese also offered sweeping debt restructuring, delaying payment on old loans for a decade. China has provided an estimated \$700 million in loans and credits to the Castro government. It appears that Chinese economic support for Cuba serves as a prop for Castro's decrepit and bankrupt regime; indeed, in a February speech, Mr. Castro referred to China as "a new motor" for his "revolution."

However, because the countries of the Western Hemisphere share many key common political values, it is unlikely that Chinese trade and investment or efforts to develop military contacts will translate into significant political support in the Hemisphere on the broad range of multilateral issues. We are confident that the Hemisphere's commitment to democracy, human rights, and market economies will not be compromised for short-term economic interests.

The United States in the Western Hemisphere

As China's presence in the hemisphere grows, the United States remains fully engaged with our neighbors. Our policy is built upon a shared commitment to democracy, free markets, and economic integration. We believe the strong and growing partnership between the United States and the Hemisphere is the foundation of the region's security, prosperity, and freedom.

I want to be clear: we do not take the status quo for granted, and we are constantly looking for opportunities to strengthen and expand these relationships with our partners in pursuit of our shared goals and objectives.

President Bush has outlined a strategy for the Western Hemisphere that rests upon four interdependent and mutually reinforcing pillars: bolstering security, strengthening democracy, promoting prosperity, and investing in people. And the key to implementing our agenda rests on multilateral cooperative engagement. This is reflected in our commitment to the Summit of the Americas process and the Inter-American system, primarily in the form of our work within the Organization of American States. We seek to constantly deepen bilateral relationships with old friends and establish new partnerships with emerging regional leaders.

Bolstering Security

While Chinese military-to-military contacts and peacekeeping activity may be growing, it is starting from a relatively low baseline. Moreover, these contacts are occurring at time of unprecedented cooperation between the United States and the countries of the Western Hemisphere on security matters. In 2005, we are providing more than \$112 million in Foreign Military Financing (FMF) to the region, making it the third consecutive year that FMF assistance has exceeded \$100 million. Our assistance has played a critical role helping the Government of Colombia meet the challenges posed by drug traffickers and terrorists.

Four countries from the region joined the Coalition for the Immediate Liberation of Iraq and sent troops to Iraq. El Salvador is on its fourth rotation. Ten countries from the Hemisphere are participating in operations to help stabilize Haiti; Brazil is leading the UN peace-keeping operation there.

We improved the basis for security cooperation in the Hemisphere by concluding fifteen Article 98 Agreements in the region. Through our efforts in the Special Summit of the Americas and the 2004 meeting of the Inter-American Committee Against Terrorism (CICTE), the political will of the hemisphere to combat terrorism was strengthened. The Special Conference on Security produced a declaration that provides a practical guide for resolving interstate border tensions, lowering pressure for arms spending, and fostering a climate of confidence, trust, transparency, and cooperation.

Promoting Democracy

The nations of this Hemisphere share a commitment to promoting freedom and the dignity of the individual. As President Bush said in his State of Union Address, “Our aim is to build and preserve a community of free and independent nations, with governments that answer to their citizens, and reflect their own cultures. And because democracies respect their own people and their neighbors, the advance of freedom will lead to peace.” Our shared values and common traditions provide a crucial foundation for closer political and economic integration. Promoting that integration in a positive way is what U.S. policy is about — especially since the first President Bush launched the far-sighted Enterprise for the Americas Initiative in 1990.

In this quest, it is imperative we have strong, democratic, stable partners working with us to defend our common interests — in this Hemisphere and around the world. That is why we are working hard to help the region’s elected leaders confront the challenge of making democracy work for the general welfare of all of their people.

Today, nearly every country in the Hemisphere has democratically elected governments. Guatemala, Nicaragua, and El Salvador — three countries just two decades ago embroiled in bloody civil wars — now routinely hold free and fair elections. Haiti will return to our family of democracies when it holds elections later this year, leaving only Cuba as the odd country out.

When popular unrest recently unseated the presidents of Haiti and Bolivia, the transfer of power in both nations occurred within the parameters of democratic institutions. And OAS efforts — supported by U.S. diplomacy — helped to preserve constitutionality in Venezuela, despite enormous challenges. To help hasten a peaceful democratic transition in Cuba, we are implementing a major new initiative including the recommendations of President Bush’s Commission for Assistance to a Free Cuba. At the January 2004 Special Summit of the Americas, all democratic governments in the Hemisphere agreed, at U.S. urging, to deny safe haven to corrupt officials and their assets.

As set out in our unique Inter-American Democratic Charter, democracy is the only legitimate form of political organization in our Hemisphere. While we work to increase freedom throughout the region, we will place special emphasis on those nations where democracy is most at risk: Haiti, Bolivia, and Venezuela. Our goals also include achieving a peaceful democratic transition in Cuba, and strengthening democratic institutions throughout the Hemisphere.

We will redouble our efforts to fight corruption and promote transparency region-wide. Corruption undermines political institutions, economic development, and public confidence, and is one of the biggest threats to democracy and stability in our region. Our initiatives are directed largely at anti-corruption and democratic institution building activities.

Economic Ties

The U.S now imports \$225 billion in products from Latin America and the Caribbean each year, and in 2004 we exported \$172 billion — more than to the European Union, and five times our exports to China. Half of our oil imports come from Western Hemisphere countries; this includes three of our top four suppliers (Canada, Mexico, and Venezuela.) Trinidad is our largest supplier of liquid natural gas.

Our stock of foreign direct investment in the region totaled \$304 billion at the end of 2003. These trade and investment numbers dwarf those of any other country. In addition, our assistance programs make a crucial difference above and beyond private sector flows — precisely because they help our neighbors to open their markets, educate their citizens, deepen the rule of law, and undertake macroeconomic reforms that lay the foundation for sustained and broad-based economic growth.

While we are proud of our successes, we will not succeed in achieving or sustaining progress toward prosperity as long as much of the Hemisphere's population remains mired in poverty. While the percentage of the population living in poverty is decreasing, because of population growth the number of people in poverty is increasing, and the distribution of income remains more unequal in Latin America than in any other world region. Therefore, reducing poverty and increasing regional competitiveness is a key objective, and one that we are pursuing aggressively on bilateral and multilateral fronts. One example is the Security and Prosperity Partnership with our neighbors to the North and South.

One element that is often overlooked when we talk about our connection to Latin America and the Caribbean is the intensity of people-to-people ties. Hispanics are the largest and fastest growing ethnic group in the United States. The 2000 Census reported that 35.6 million people identified themselves as Hispanics, almost 13% of our population. And the Census Bureau projects that by 2010 Hispanics will be around 48 million, about 16% of our population. These

communities sent back to their home countries more than \$35 billion in remittances last year. And those remittances are expected to continue to grow quickly.

Another indicator of the intensity of those ties is travel. The FAA estimates that total passenger traffic to and from the U.S. to Latin America and the Caribbean was 43 million trips last year, almost as many as across the Atlantic (48 million) and almost twice the number across the Pacific (24 million).

U.S. educational institutions have a powerful impact on the region through exchanges of students, teachers and professionals, and through institutional partnerships. And the cultural linkages within the Americas are also intense, one example being the growing popularity of Latin art and music in the U.S.

While we believe that our ties to the region remain solid and unshakable, we recognize that strengthening these bonds and solidifying democracy and economic growth are essential if we are to maintain this posture. One of the keys to this process — and where we hope to partner with the legislative branch — is in our trade agenda, and particularly the approval of the CAFTA-DR agreement.

We can send no better message to our Latin neighbors of the U.S. commitment to a strong and vibrant partnership than this free trade accord which will make our economic and commercial ties closer than they have ever been, and will solidify Central America's transformation toward democratic governance and free market economies.

Central America and the Dominican Republic make up the 2nd-largest U.S. export market in Latin America, behind only Mexico. CAFTA-DR will not only allow all parties to it, including the U.S., to increase prosperity through the opening of markets and increased investment flows, but it will also strengthen democracy in the region, encourage critical second generation economic reforms, and contribute to anti-corruption and poverty alleviation efforts.

Closer trade ties are a signal of friendship and commitment, and they serve our mutual interests. With Congress' support, approval of CAFTA-DR and conclusion of the ongoing talks with the Andean countries and Panama will make clear that the Hemisphere has no greater and more committed partner than the United States.

Increased Resources

Our commitment to the region's well-being is also reflected in our assistance programs. Most governments in our Hemisphere are trying to do the right thing; and that is why we are such active partners. The money we spend in our region enjoys great marginal return, preserving momentum for reform, supporting countries' efforts to achieve self-sustaining growth, and buttressing the political stability of nations. If the choice is between healthy economic partners or exporters of drugs and terrorism, it is obvious where we will stand. Furthermore, our assistance helps reinforce multilateralism directed at practical advances, with the countries of the region moving together as a community with shared values.

Our assistance helps countries develop the capacity to govern with accountability and transparency, to implement policies that allow economic freedom to flourish, and to invest in their people. These priorities echo the core criteria of the Millennium Challenge Account (MCA), President Bush's bold new initiative that substantially increases our aid flows. We are actively promoting economic and political reform through the MCA by rewarding countries that make the commitment to rule justly, invest in their people, and encourage economic freedom. Three of the poorest Western Hemisphere nations — Nicaragua, Bolivia, and Honduras — have been designated by the MCC as eligible to apply for assistance. We are hopeful that Guyana and Paraguay will qualify for the threshold country program.

Our public diplomacy efforts build support for U.S. policies by delivering a consistent message that presents the U.S. as an engaged and reliable partner, ready to work with our hemispheric neighbors to create a true inter-American community. In particular, we are expanding our outreach to our neighbors to strengthen democratic institutions by showing how greater access to the political process, a government free of corruption, and strict adherence to human rights can improve the lives of average citizens.

We will advocate for open markets and free trade and concretely address how a market economy can produce benefits for even the most marginalized segments of society. We are always working to better publicize U.S. assistance to the region and its impact on the lives of ordinary people. In short, we are constantly looking for ways to demonstrate the ways in which U.S. engagement adds value in the form of better governance, more economic opportunity, and an improved quality of life.

Summary

China's growing presence in the region reflects its growing engagement throughout the world. It does not necessarily constitute a threat to U.S. interests. Nonetheless, we remain keenly aware that China's growing economic ties to the Hemisphere includes a political dimension.

In the meantime, we will continue our historically strong and close ties in the Hemisphere and to advance our agenda by focusing on the pillars identified earlier — bolstering security, strengthening democracy, promoting prosperity, and investing in people. To advance this agenda, we will need the continued support of Congress for the initiatives that support our agenda.

Our challenge is to remain actively and effectively engaged in Latin America, and continue helping our friends transform their societies and extend the benefits of democracy and economic reform to all their citizens. China is a growing presence in the Western Hemisphere, but it is safe to say that the United States has been, and will continue to be, the long-term partner of preference — a preference not based on short term-term economic deals, but based on shared values and common long-term objectives. The Administration's policies aim to ensure that this remains so.